

1 October 1986

Subject: Post Office and Civil Service Subcommittee on Compensation and  
Employee Benefits - Proposed Legislation to Correct Tax Reform  
Inequities for Federal Employees - Hearing on 30 September 1986

1. The Tax Reform Bill of 1986 (HR 3838) was passed by the House and the Senate and will be signed by the President in the near future. A segment of this legislation provides for the repeal of the "3 Year Rule" tax exclusion for public servants, effective 1 July 1986. In an effort to reverse this segment of HR3838, the Chairperson for the Subcommittee on Compensation and Employee Benefits, Mary Rose Oakar, has submitted HR 5600 for consideration by the House. The contents of HR5600 were not described during the hearings, except the mention that it addressed the repeal of the 3 Year Rule for federal employees only. (It excludes state and municipal employees ???) There was no mention of when or where the proposed legislation would be acted upon, subsequent to the 30 September 1986 subcommittee hearings.

2. Eighteen members of Congress had requested to testify at the hearings. Fourteen actually did testify:

Mary Rose Oakar - Ohio  
Mickey Leland - Texas  
Frank Wolf - Virginia  
Harry Reid - Nevada  
Dan Akaka - Hawaii  
Earl Hutto - Florida  
Stan Parris - Virginia  
Helen Bentley - Maryland  
Barbara Mikulski - Maryland  
Beverly Byron - Maryland  
Glenn Anderson - California  
Rick Boucher - Virginia  
Neal Abercrombie - Hawaii  
Marty Russo - Illinois

Most testimony was repetitive and there was unanimous disagreement with the "retroactive effective date" of the repeal of the 3 Year Rule, in HR3838. Many acknowledged that they voted in favor of the Tax Reform Bill of 1986, however, they did so because of overriding considerations. (The author of HR 5600, Mary Rose Oakar, voted in favor of the Tax Reform Bill). Several of the congressional testifiers expressed concerns about the negative impact on the morale of government employees because of recent adverse rulings by the Congress e.g., cancellation of the COLA, the Gramm-Rudman-Hollings reductions; and, the retroactive repeal of the 3 Year Rule. Congresswoman Helen Bentley (MD) wondered "Has Congress declared war on the government employees?"

3. There were three panels consisting of senior executives of federal employee unions who also testified (See attachment). Lud Andolsek, the retiring President of the National Association of Retired Federal Employees (NARFE), questioned why only the public servants annuities were adversely affected by the recent congressional actions. Social Security annuity benefactors are not subject to the same detrimental tax ruling as applies to public servants under HR 3838. Contributions to both retirement funds are deposited in retirement trust funds. Why not equal treatment??? Ms. Carol Bonosaro, President of the Senior Executives Association, stated that results of a recent survey of their membership revealed that 91% of those eligible for retirement would have exercised this option - if they knew of the 1 July 1986 deadline, in advance. One Panel member stated that his union had received information from the Tax Reform Bill conferees indicating that the reason for retention of the retroactive 1 July 1986 ruling was to "block people from retiring."

4. It is not clear why HR5600 was presented by Ms. Oakar (with more than eighty co-sponsors) particularly when considering that the 99th Congress is scheduled for adjournment on 3 October 1986, i.e., three days after the subcommittee hearings on the proposed bill. The issue is further confused by the knowledge that the Chairman of the House Ways and Means Committee is the prime sponsor of the repeal of the 3 Year Rule. Why would he permit it to get to the floor of the House? The apparent logical conclusion is that the congressional supporters of the proposed legislation (HR5600), (many of whom voted in favor of the Tax Reform Bill of 1986), can appease their constituents with claims of support for the public servant, during the impending congressional campaigns. In summary, there was no indication during the two hour subcommittee hearings on 30 September that the 3 Year Rule repeal had any serious chance of reversal.

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